

Service Date: January 28, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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|------------------------------------|---|-------------------|
| IN THE MATTER of the Request of |) | UTILITY DIVISION |
| Montana Power Company for Approval |) | |
| to Amortize Costs Related to the |) | DOCKET NO. 88.1.3 |
| Corette Plant and Certain Hydro- |) | |
| electric Generation Additions. |) | ORDER NO. 5326 |
| _____ |) | |

ACCOUNTING ORDER

BACKGROUND

1. On January 21, 1988, the Commission received a request from Montana Power Company (MPC or Company) for an accounting order giving approval to amortize preliminary survey and investigation costs incurred in connection with the J. E. Corette steam electric generating unit and certain hydroelectric generation energy and capacity additions. Specifically, MPC requests Commission approval to amortize the accumulated costs incurred by the Company in connection with investigating pollution control additions and boiler inspection at the Corette unit, preliminary survey of siting additional hydroelectric generating stations at Buffalo Rapids - Site 2 and Buffalo Rapids - Site 4, and increasing the generating capacity at Hauser Dam. These costs would be amortized to account 930, Miscellaneous General Expenses, and the amortization period would be five years beginning with the calendar year 1988. The total amount for which the Company is requesting amortization is \$1,619,699.

2. According to MPC, because of air quality difficulties in Billings, Montana, the Company has incurred

meteorological study costs and has investigated the possibility of upgrading the Corette Plant precipitator. It was determined that additional construction was not economically feasible, and in 1987 the State Legislature established air quality standards for Billings that could be met with existing equipment. The accumulated cost incurred by the Company was \$469,439. Also at the Corette Plant, the Company incurred \$317,553 for a detailed inspection of the boiler system. This inspection was deemed necessary due to an explosion in the high pressure piping system of another utility's similarly designed plant. The inspection result was that there were no serious problems and construction did not result.

3. The Company also explained that for many years it has carried as an asset, preliminary survey and investigation costs incurred with respect to Buffalo Rapids - Site 2 (\$105,445) and Site 4 (\$120,232) which are potential hydroelectric generating sites located in the Flathead Indian Reservation. The Company has dropped its plan to pursue development of these sites principally because its future presence on the Reservation will be limited after the Kerr Plant is turned over to the Tribes. The Company has also incurred \$607,030 investigating the possibility of increasing the generating capacity at Hauser Dam. Due to environmental concerns, the Company will be unable to increase the capacity at Hauser Dam.

4. The Company stated, "If the Commission approves the accounting order, the Company understands and intends that it has the full burden of proof to demonstrate that such amortization is

properly included in the revenue requirement determination in its next rate proceeding which will be filed by June 30, 1988."

5. In its application, the Company also provided the proposed journal entry to amortize these costs and a summary of the costs incurred by MPC to December 31, 1987. The following shows the proposed journal entry to record the amortization:

| | <u>Debit</u> | <u>Credit</u> |
|---|--------------|---------------|
| 930 Miscellaneous General Expense | \$323,940 | |
| 283 Accumulated Deferred Taxes Other | 142,696 | |
| 186 Miscellaneous Deferred Debits | | \$323,940 |
| 411.1 Income Taxes Deferred in Prior Years - Credit, Utility Operating Income | | 142,696 |

To record annual amortization of costs over a period of five years commencing January 1, 1988.

COMMISSION ANALYSIS AND DECISION

6. The Commission is willing to grant MPC's request for an accounting order. This action, however, is not an approval of the accounting procedure proposed by the Company or the length of time such accounting shall be deemed as proper. This approval is for accounting purposes only, and the Commission explicitly denies at this time any request in the Company's application for approval of any aspect of the proposed amortization or the various costs discussed in the application. Such matters and issues will be

addressed and the proper ratemaking treatment will be determined in the next general rate filing of the Company. This Order is not to be construed as, nor is it in any way, a directive as to the proper accounting treatment for such costs, or an approval of either the actual numbers involved, the accounting method used, or the assumptions underlying those numbers. Most importantly, this Order does not prejudice in any fashion the treatment of the numbers and accounts involved for any future ratemaking proceeding. In particular, the Commission reserves any judgment as to whether these costs are appropriately considered as expenses or capital expenditures. If these costs are ultimately determined to be capital expenditures, the Commission will then consider whether they meet the used and useful criteria of Section 69-3-109, MCA.

Accordingly, as clarification of MPC's request in this filing, the Commission denies any action in this Order concerning proper ratemaking treatment for any of the costs associated with the proposed amortization. The Company will have the opportunity, as well as the burden, to demonstrate in a future general rate proceeding that any aspect of these costs are recoverable in rates and that the costs and proposed amortization of those costs is proper. This Order has no bearing upon the merits of such a determination or any other Commission determination concerning any

costs, amortization of those costs, or proper ratemaking treatment associated with any aspect of the proposed amortization in this application.

CONCLUSIONS OF LAW

1. The Montana Power Company is a public utility furnishing electric service to consumers in the State of Montana, subject to the supervision, regulation, and control of this Commission. Title 69, Chapter 3, MCA, Section 69-3-102, MCA.

DONE AND DATED at Helena, Montana this 27th day of January, 1988, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Acting Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.